

**REPORT OF THE AUDIT OF THE
FORMER MORGAN COUNTY
SHERIFF**

**For The Period January 1, 2002
Through January 5, 2003**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MORGAN COUNTY SHERIFF

**For The Period January 1, 2002
Through January 5, 2003**

The Auditor of Public Accounts has completed the former Morgan County Sheriff's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$14,948 from the prior calendar year, resulting in excess fees of \$9,749 as of January 5, 2003. Revenues increased by \$21,554 from the prior year and disbursements increased by \$36,502.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were fully insured.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Timothy Conley, Morgan County Judge/Executive

Honorable Bill Frank Lacy, Former Morgan County Sheriff

Honorable Mickey Whitt, Morgan County Sheriff

Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Morgan County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Timothy Conley, County Judge/Executive
Honorable Bill Frank Lacy, Former Morgan County Sheriff
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 4, 2003

MORGAN COUNTY
 BILL FRANK LACY, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 10,764	
Kentucky Law Enforcement Foundation Program	7,923	18,687

Circuit Court Clerk:

Sheriff Security Service	\$ 9,616	
Fines and Fees Collected	620	10,236

Fiscal Court		48,025
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County Clerk - Delinquent Taxes		2,082
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Commission On Taxes Collected		86,476
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Fees Collected For Services:

Auto Inspections	\$ 3,615	
Accident and Police Reports	24	
Serving Papers	8,785	
Add-On Fees	14,819	27,243

Other:

Carrying Concealed Deadly Weapon Permits	\$ 2,250	
Miscellaneous	595	2,845

Interest Earned		700
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Borrowed Money:

Bank Note		10,000

Total Receipts	\$	206,294
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The accompanying notes are an integral part of this financial statement

MORGAN COUNTY
 BILL FRANK LACY, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 2002 Through January 5, 2003
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$	72,895
Other Salaries		6,890
Employee Benefits-		
Employer's Share Retirement		22,056
KLEFP - Matching and Withholding		2,940
Contracted Services-		
Advertising		44
Materials and Supplies-		
Office Materials and Supplies		508
Uniforms		185
Other Charges-		
Utilities		5,309
Convention and Training		1,348
Dues		388
Postage		2,363
Carrying Concealed Deadly Weapon Permits		2,658
Bond		618
Vehicle Expense		4,116
Bank Charge		15
Miscellaneous		471
Debt Service:		
Bank Note		10,000
Loan Interest		57
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Total Disbursements	\$	132,861
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Less: Disallowed Disbursements		
Loan Interest		57
		<hr/>
Total Allowable Disbursements	\$	132,804
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Net Receipts		\$ 73,490
Less: Statutory Maximum	\$	62,259
Less: Training Incentive Pay		1,482
		<hr/>
Excess Fees Due County as of January 5, 2003	\$	9,749
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The accompanying notes are an integral part of the financial statement.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the first six months and 16.28 percent for the last six months of the period.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

COMMENT AND RECOMMENDATION

MORGAN COUNTY
BILL FRANK LACY, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2002 Through January 5, 2003

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to help offset this internal control weakness.

- The Sheriff should periodically, and on a surprise basis, compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the quarterly financial report.

Former County Sheriff's Response:

Satisfactory - forward to new Sheriff.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the former Morgan County Sheriff for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated April 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Morgan County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Morgan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 4, 2003

